



DEPARTMENT OF THE ARMY

U.S. Army Corps of Engineers
WASHINGTON, D.C. 20314-1000

REPLY TO
ATTENTION OF:

CERE-A

JUN 15 1994

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Assessing Land Contributions for Projects Cost-Shared prior to the Water Resources Development Act of 1986 (WRDA 86)

1. References:

a. US Army Audit Agency (USAAA) Audit Report WE91-203, Cost Sharing of Civil Works Project Construction, 4 September 1991, Finding C, (copy enclosed);

b. Activities Included in the Audit and Projects Included in the Audit, Annexes A and B to USAAA Audit Report, WE91-203 (copies enclosed); and

c. ASA(CW) Memorandum for the Inspector General, Subject: Resolution of Disagreement, USAAA Audit Report WE91-203, 3 March 1992 (copy enclosed).

2. From November 1989 through February 1991, the USAAA visited HQUSACE, CELMV, CESWD, CELMN, CENCS, CESAJ and CESWA and reviewed documents relating to 19 cost-shared projects (pre and post WRDA '86) in its audit of cost-shared construction projects. The overall objectives of the audit were to determine if: (1) local cooperation agreements were obtained in a timely manner; (2) if sponsors' capability and ability to share construction projects were properly evaluated; (3) if projects were split into appropriate elements and phases; (4) if local sponsors' share of construction costs was collected in accordance with local cooperation agreements, and to determine if the funds received from sponsors were properly accounted for; and (5) if work-in-kind, lands, easements, rights-of-way, relocations and dredge material disposal areas furnished by sponsors for credit were valid and properly accounted for.

3. This last objective dealt primarily with Real Estate and the issues of credit for land contributions, and is captured in Finding C and Findings and Recommendations (FARs) C-1 through C-13 (see reference a). The majority of these FARs have been addressed and/or implemented. However, as a result of funding and manpower shortages and ever dwindling resources, full implementation of four remaining recommendations has been difficult. These remaining unimplemented audit recommendations deal exclusively with cost-shared projects and cost-shared policies and procedures which pre-date WRDA '86.

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4. For all cost-shared projects which pre-date WRDA '86, Real Estate must determine the reasonableness of recorded land values that are not supported by appraisals (FAR C-1). USAAA found that at four Districts neither Real Estate nor Project Management could furnish appraisals to support \$23.8M of \$54M of credit for land contributions at 10 projects.

5. This assessment of the reasonableness of recorded land values for land contributions should include an assessment of any preliminary estimates, or purported preliminary estimates, which might have formed the basis for credits for land contributions (FAR C-7) as found by USAAA at one District.

6. The USAAA also found that land contributions accepted for credit of local sponsors' share of construction costs were not recorded in accounting records. A review of 19 projects showed that credits allowed for 12 projects exceeded the value of land contributions recorded in accounting records by approximately \$34M. As directed in FAR C-11, Districts must conduct a one-time reconciliation of land contributions recorded on accounting records to land contributions supported by the reasonableness assessment required per paragraph 4 above.

7. Implementation of FARs C-1, C-7 and C-11 are linked through the reasonableness assessment to be performed for land values which did not have appraisals or were based on preliminary estimates or purported preliminary estimates like in one District. If land values are determined to be reasonable, then all that remains to be performed is the one-time reconciliation of land contributions deemed reasonable to land contributions recorded on accounting records.

8. However, if land values are found to be unreasonable as a result of the assessments performed, then credit previously granted to local sponsors will have to be recomputed and appropriate collection action may have to be initiated. If additional collection appears to be required, Districts should notify HQUSACE, CERE, prior to any discussions with any local sponsors.

9. The last unimplemented audit recommendation deals with credit for contingency amounts. For two projects at one District, contingency amounts were added to appraisals and sponsors were given credit for these amounts. The USAAA recommended that Districts review appraisals for land contributions received from sponsors and reduce any credits based on contingencies. Sponsor cash contributions should then be

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recomputed using land contributions which exclude contingencies, and additional cash collected from sponsors as appropriate (FAR C-3). HQUSACE did not concur in this recommendation and argued that credits for contingencies were only allowed for pre-1986 hurricane protection projects to equalize the difference between state and federal appraisal methodologies. OASA(CW), however, concurred with USAAA's recommendation except in those cases where the Army is bound by existing contractual agreements (see reference c).

10. HQUSACE has determined that for lands, easements and rights-of-way acquired by sponsors before the date of this memorandum and subsequent credit, we are bound by existing contractual agreements. However, effective immediately, for any project, including reaches or sections of on-going hurricane protection projects for lands, easements and rights-of-way to be acquired after the date of this memorandum, sponsor credits may no longer include contingency amounts and the post WRDA '86 rules, policies and procedures apply as described in ER 1165-2-131 and Draft Chapter 12. Contingencies are not allowable credit regardless of the purported arrangement, agreement or understanding for cost-sharing and should be removed from all District regulations.

11. Reference b lists the projects and districts reviewed and visited by USAAA. If additional information is needed in implementing the recommendations described in FARs C-1, C-3, C-7, and C-11 as discussed above, please contact Laura Ouverson Norman or Dwain McMullen of my staff.

12. Confirmation of District implementation of these FARs should be forwarded to HQUSACE, ATTN: CERE-A by 31 October 1994.

Encls


B. J. FRANKEL

Director of Real Estate

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